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Markborough Properties Annual Report 1977

Markborough Properties Limited
Head office: 90 Eglinton Avenue West, Toronto

Highlights

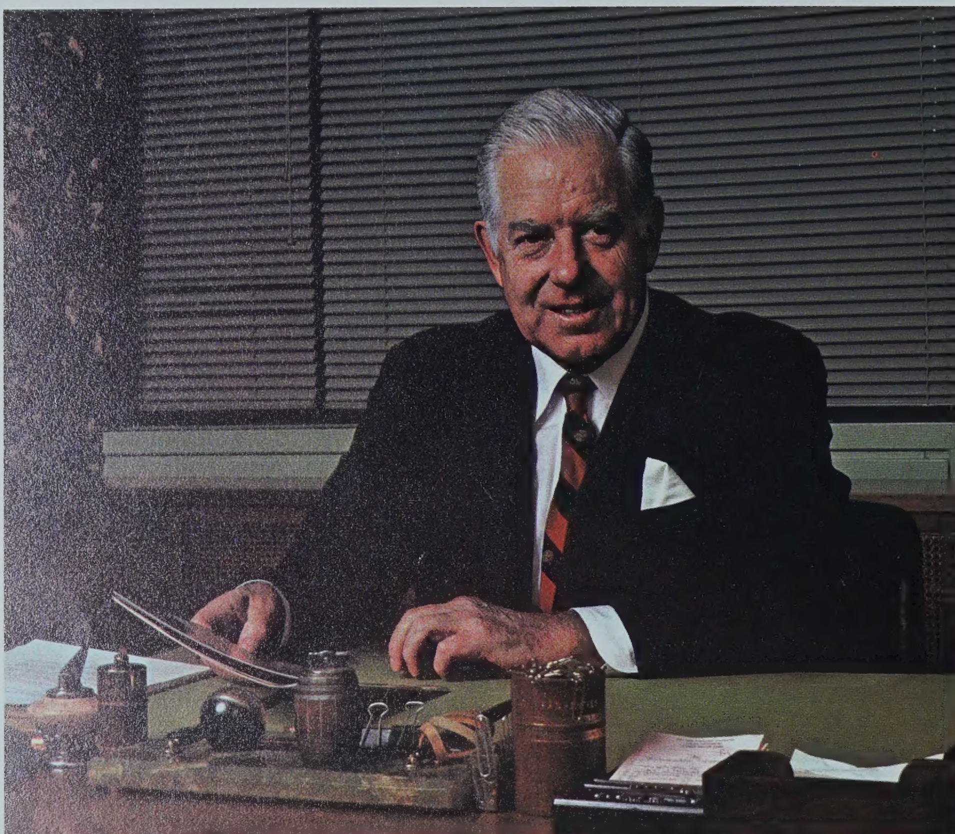
	1977	1976
Operating results for the year		
Revenue from land operations	$ 23,077,600	$40,933,000
Revenue from income properties	10,676,700	8,720,000
Net income before taxes	6,898,900	18,109,100
Net income after taxes	3,785,900	9,489,100
Per common share (weighted average):		
Net income after taxes	$0.95	$2.37
Cash flow from operations	1.07	3.54
Financial position at the year end		
Undeveloped land	$ 94,900,300	$83,719,100
Income properties	64,543,400	57,062,300
Bank debt	11,963,800	9,972,200
Long term debt	100,462,900	90,261,100
Share capital	20,956,300	20,956,300
Retained earnings	28,821,000	26,075,800
Statistical at the year end		
Common shares outstanding	4,002,499	4,002,499
Ratio of income properties to land for development	.7 to 1	.7 to 1
Ratio of debt to equity	2.3 to 1	2.1 to 1

Contents

Cover:

Boating on Lake Aquitaine, Meadowvale

Dear Shareholder:



A year ago I reported to you on the finest year in our history. I also mentioned that we would probably not attain the same levels of sales and profits in 1977. In fact, we did not. Land sales declined from $40.9 million to $23.1 million. Profit was 95¢ per share compared to $2.37 last year. Revenue from income properties rose substantially from $8.7 million to $10.7 million. Although we did not register and sell as much land as we had anticipated, we earned profits of $3.8 million, a figure that would have been satisfying three or four years ago.

Deserving of specific comment is the lower revenue and profit from our land operations. We had been counting on obtaining registration of our subdivisions in Whitby and Aurora. By year end, we were much closer to the end of the planning process, but did not achieve registration in time for marketing these lands in 1977. Our profit from land operations was further reduced by the decision to write-down by $2.1 million the first phase of our Villages of Homestead project in Florida. In Meadowvale, we registered the higher-density land surrounding the lake in Neighbourhood 3. Of the 14 multiple blocks in this area, we sold 11. The balance remains to be marketed in 1978.

Our operating costs again increased. General and administrative expenses rose some $600,000. The increase is largely attributable to the expansion of the Company's activities—additional salaries and expenses required to commence our Phoenix operations, the cost of inves-

tigating new opportunities and the increased level of bank borrowing to finance our expansion program. While we regard these increases as necessary at this stage of the Company's growth, we will continuously and diligently monitor our costs of doing business.

We were generally pleased with the performance of our income property portfolio. We are intent on pursuing a policy of development and acquisition of shopping centres. Our first enclosed mall, Woodside Square in Scarborough, opened in May and reports on its first months of operation are very favourable. We are preparing to open the shopping facilities in the Meadowvale Town Centre in the spring of 1978.

In the industrial sector, we can report full occupancy of our 17 buildings. They are all returning satisfactory yields. This has prompted the commencement of construction of a 60,000 square foot multiple tenancy building for lease in the Rexdale Industrial Park. Another similar building is scheduled for construction in the new year.

We should also mention our decision to reduce our holdings of rental apartment buildings. During the year three older buildings in Etobicoke were sold and the sale of two more in which we share a joint ownership will be completed early in 1978. We are normally reluctant to dispose of any income producing properties, yet the operating results of these buildings could not justify their retention.

Perhaps the single most significant event during the year was the establishment of Markland Properties, Inc., a wholly-owned subsidiary in Phoenix, Arizona. We had been intensively canvassing the Southwestern United States for development opportunities. Phoenix was chosen as a first base because of its growing economy, the stability of its housing market and the availability of a skilled local management team. Our experience to date has been very good indeed. For instance, we have been able to bring one residential tract of land into production in six months from the time of acquisition. A second subdivision will be ready in February, 1978. We are, for the first time in our corporate history, constructing homes for sale. Two industrial buildings are also under construction and will be available for occupancy in the spring. We are confident that Markland Properties, Inc. will serve as an increasingly important profit source for the Company.

Geographical diversification of our operations was inevitable. Our principal successes in the past have come from our land development projects in Southern Ontario. But we have found that the price of land with reasonable prospects for development has escalated to the point where potential profit margins are considerably less attractive. We are not, however, giving up on the Ontario market and have just acquired a parcel consisting of 283 acres in Mississauga to extend our presence in that community. We nevertheless felt compelled to look elsewhere in an effort to ensure the continuing growth of the Company in the next several years. We expect to be able to announce plans for expansion into California and Texas in 1978.

In our industry in Ontario, there is in some areas an accumulation of inventories of unsold housing. This obviously has concerned the building community. It undoubtedly reflects some of the uncertainties in the prospects for the Canadian economy. Considerable caution is required in any optimism that the general economic situation will improve. Yet we remain convinced that with imaginative planning and marketing, the housing industry will prosper. We must not settle for more over-building of the same product in hum-drum subdivisions. We have been careful to avoid this and will continue to strive for quality in our developments. It leads me to have confidence in the future of the Company. It is interesting to note that this year the book value of our assets has exceeded $200 million for the first time. With the steps that we have taken to expand and diversify our activities, 1978 should be a reasonably good year.

As we announced in December, the Directors have approved payment in February of the Company's semi-annual dividend of 13¢ per share.

Again, I commend our management and staff for their diligence and industry. We are indebted to them.

BRB Magee

B. R. B. MAGEE,
President and Chairman of the Board.
January 10th, 1978.

Land Development

Ontario

Meadowvale's growth proceeds unabated. It is now five years since the first residents occupied housing in the new town. About 14,000 people have followed. In 1976 our builders recorded over 2,000 sales of new housing units in a market that was generally soft during the latter part of the year. As the community matures, our role as its developer will change. We will be less active in the production of serviced residential land. We will be concentrating on the expansion of its commercial and industrial potential. We will be there for some time to come and our pride in its success will not diminish.

There were a number of achievements during the year to be acknowledged. The last major residential neighbourhood in Meadowvale West received registration. Of the 14 higher-density multiple blocks in this neighbourhood and the adjacent Town Centre, 11 have been sold and the transactions have closed. This area surrounds the 12 acre lake that we have built and dedicated to the City of Mississauga. Named Lake Aquitaine, it is a truly impressive sight. An official opening will be held in June of 1978.

Our efforts to advance the development of the lands north of Highway 401 as a prestigious commercial and industrial park were strengthened by an unanticipated impetus. We were able to conclude an agreement for the sale of a strategic 10 acre site at the northwest corner of Mississauga Road and Highway 401 to a major pharmaceutical company for their Canadian corporate headquarters. Their present plans include an office building and manufacturing and warehousing facilities. The sale is conditional upon our obtaining zoning and other planning and servicing approvals.

Our presence in the City of Mississauga was enhanced by an acquisition of 283 acres of land in the area north of Eglinton Avenue and east of the Credit River. Its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1. Quadraminium housing, Meadowale South
2. Cluster housing, Neighbourhood 4, Meadowvale West
3. Townhousing, Neighbourhood 1, Meadowvale West
4. Townhousing, Neighbourhood 2, Meadowvale West
5. The dock, Lake Aquitaine, Meadowvale

Opposite: Streetscapes in Meadowvale West, Mississauga


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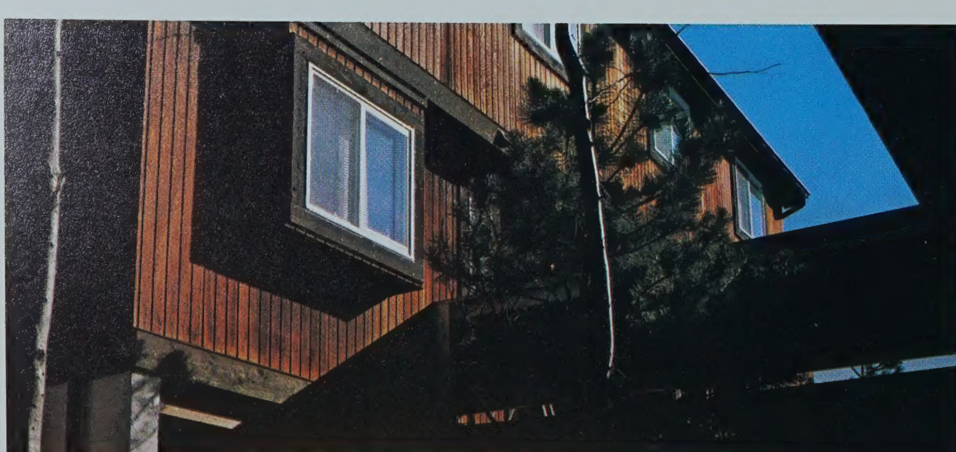
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prospects for development are favourable and we have commenced our planning studies.

The Whitby subdivision is now about to reach the market. Registration of the plans is imminent and underground servicing is expected to be undertaken during the winter months in anticipation of a spring building program. The project, named "Blue Grass Meadows", will have a strong traditional flavour. We are in the process of negotiating sales agreements for the single family and semi-detached lots, with closings to occur coincident with the availability of building permits.

In Aurora, our project also nears its final processing stage. The zoning by-law for the subdivision has been approved by the Ontario Municipal Board and we expect that the plans will be registered and the lots sold during 1978.

We continue to pursue the advancement of our other landholdings in Southern Ontario. In Oakville, the work to prepare for public hearings on the Official Plan has been intensive. In Brooklin, we are responding to the community study that has been prepared for this area in an effort to ensure that development will accommodate our lands.

Alberta

Last year we announced the acquisition of a 550 acre parcel of land in Calgary, Alberta. We appear to have resolved all of the issues that were delaying its development and the City is processing the plans for a first stage of approximately 100

1. High-rise apartments, Neighbourhood 8, Meadowvale West
2. Single-family housing, Neighbourhood 2, Meadowvale West
3. Single-family housing, Barrisdale, Neighbourhood 3, Meadowvale West
4. Single-family housing, Neighbourhood 2, Meadowvale West
5. Construction of the Amphitheatre, adjacent to Lake Aquitaine, Meadowvale
6. Townhousing, Neighbourhood 2, Meadowvale West

acres. Present plans anticipate occupancy of the first housing units by early 1979. We are interested in expanding our operations in this province and are negotiating the purchase of a 60 per cent interest in 135 acres in the Southwest sector of Edmonton. Other opportunities are being investigated.

United States

A wholly-owned subsidiary, Markland Properties, Inc., was established in Phoenix, Arizona. We were attracted to the buoyant economy of the South-western United States and selected this progressive city as an initial base. An experienced local management team has been assembled. In the period from May to October, 1977, 375 acres of land have been acquired or placed in escrow. The purchase of a major tract of 1,120 acres is under serious negotiation. In the first residential subdivision of 39 acres, a grand opening of model homes on December 18th, 1977 launched the marketing of houses constructed by the Markland division. An opening of a second 53 acre community is scheduled for February of 1978. Two industrial buildings comprising a total leaseable area of 74,000 square feet should be completed for occupancy by April and interest of potential users appears to be strong.

Our Florida project, the "Villages of Homestead", moved ahead. Two major lakes have been excavated. We began the earthworks and underground servicing for the first residential stage. We


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1. Estate home, Squire's Wood I, Geauga County, Ohio
2. & 3. Model homes, Willowbrook subdivision, Phoenix, Arizona
4. Lake excavation, Homestead, Florida


Flowers

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received approval of the plat for this first stage of 153 acres containing 426 housing units. The co-venture, in which we are the development manager and a 50 per cent partner, has decided to commence the project by building a number of model homes. Indications are that our marketing program will be well accepted. We were encouraged by the decision of the Dade County School Board to locate a 300,000 square foot senior high school on a 37 acre site in the development. Its construction has started.

In suburban Cleveland, Ohio, our joint venture estate lot development continues. We have purchased another 380 acre parcel to ensure that the demands of a robust market will be met. A total of 145 individual sales of three and five acre lots were completed in this area in 1977. In Columbus, Ohio, we have concluded the acquisition of a prime 163 acre site which is scheduled for immediate residential development.

Shopping Centres

Woodside Square, the Company's first enclosed mall, opened May 11th, 1977. Located at the intersection of McGowan Road and Finch Avenue in the Brimley Forest area of Scarborough, it is anchored by a 42,000 square foot Dominion store and a 50,000 square foot Pascal hardware department store. The Pascal store is the first entry into the Metropolitan Toronto market area for this success-

1. Woodside Square
2. Eden Park Market, convenience shopping centre, Neighbourhood 8, Meadowvale West
3. Maplewood Market, convenience shopping centre, Neighbourhood 2, Meadowvale West

Opposite: Woodside Square shopping centre, Scarborough

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ful Quebec-based merchandiser. In a growing market area, early sales figures are quite satisfactory. The centre will be aided by the decision of the Ontario Municipal Board approving the development of the Milliken community to the north. It will eventually add 28,000 people to the primary market area. We have prepared preliminary plans for expansion of the centre ultimately to 300,000 gross leaseable square feet.

Construction of the shopping facilities in the Meadowvale Town Centre commenced following registration of the plans in February, 1977. It is an aesthetically pleasing structure. The principal tenant in the first phase will be a 55,000 square foot Dominion store, the largest single supermarket of this major chain in Canada. The centre will open in March, 1978 and leasing commitments have been obtained for all of the available space.

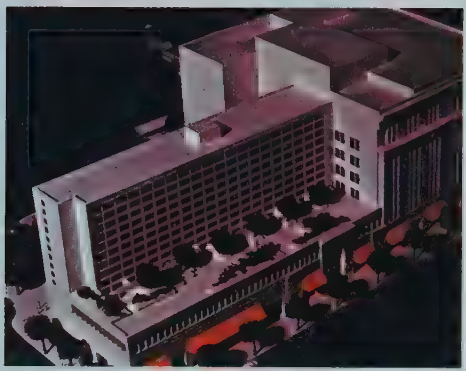
A fourth neighbourhood convenience centre will be completed in the spring to serve the residents of Meadowvale West. The Company owns and operates seven shopping centres. Of the combined gross leaseable area of 369,000 square feet, 95 per cent of the space is leased. The operating results of our centres form an increasing component of the revenue from our income properties.

Hotels

The Chelsea Inn in Toronto, in which the Company has a 16.7 per cent interest, has assumed a strong position in the very competitive downtown hotel market. With an average monthly occupancy rate of 85 per cent during the fiscal year, it leads the

1. J. B. Alguire, Vice-President, Commercial Development (L) and M. G. Richardson, Manager (R) at Meadowvale Town Centre shopping centre
2. & 3. Meadowvale Town Centre shopping centre, under construction

Opposite: Front entrance, Chelsea Inn, Gerrard Street, Toronto



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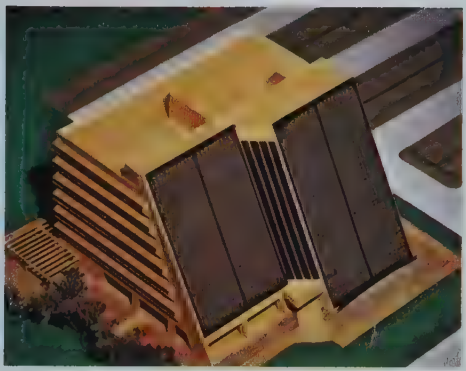

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major hotels. Further revenues were achieved by the conversion of suites into 183 additional single rooms. The hotel now has a total of 995 rooms. Another restaurant facility, The Spotted Cow, has been created to relieve congestion in the dining facilities.

We are currently refurbishing the Regina Inn. Its 240 rooms and suites have now been completed and work has commenced on the substantial facelifting planned for the lobby and main staircase. A dinner theatre facility, known as "Stage West", is opening its doors on February 1st with Gale Gordon as the first feature attraction. Despite increasing competition, the Regina Inn maintains its leading position among the city's hotels.

Offices

We were able to lease a further 50,953 square feet of the office building at 220 Duncan Mill Road and it is now 67 per cent occupied. Every initiative is being taken to lease the balance of the building. Our three other office buildings are fully occupied and show very satisfactory returns.

The Company is planning the construction of a 100,000 square foot solar heated office building on a site in the Meadowvale Town Centre. It is expected that negotiations for the lease of a substantial portion of the building for a comprehensive health care centre will permit a construction start on this unique facility in 1978. It will be the first totally solar heated office building in North America.

College Park

Worthy of special comment is the progress with the redevelopment of the jointly owned site at the corner of College and Yonge in Toronto. The 10 storey rental apartment tower is rising above the Yonge Street wing of the building which was previously the Eaton College Street

1. Model, Phase I, College Park
2. Model, Meadowvale solar office building
3. Office buildings at 7 and 15 Overlea Boulevard

Opposite: Construction of Phase I, College Park, Toronto


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store. Scheduled for completion in June, 1978, it will provide 210 suites to fill a particular need for new rental accommodation in the core area. Five floors of the corner structure are being converted to offices. A leading Canadian financial institution will occupy in excess of 250,000 square feet of this space as a computer centre in April. A further commitment is expected from a prospective tenant for 60,000 square feet of offices. The leasing program for the 137,000 square feet of retail stores has commenced.

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Industrial Development

We completed construction of a new Canadian headquarters for Dow Corning in the Meadowvale Business Park.

1. VS Services Ltd. building, Evans Avenue, Etobicoke
2. G. C. Hunt, Vice-President, Industrial Division (L) with W. H. D. Finlayson, Site Operations Manager (middle) and R. L. Miller, Manager of Administration (R) of Dow Corning Canada Limited, Campobello Road, Meadowvale

   Opposite: National Cash Register Canadian headquarters, Century Avenue, Meadowvale

It represents the first undertaking of our Industrial Division in Meadowvale. In the Islington and Evans Avenue area of Etobicoke a 24,000 square foot office and food processing facility has been built and sold to VS Services Ltd. In order to permit us to continue to offer industrial space for lease, a 60,000 square foot multiple tenancy building has been started in our Rexdale Industrial Park. A small four acre site in the Queensway area of Etobicoke was purchased and we are discussing several proposals for its development.

Shortly after year end, we were successful in completing negotiations for the sale of a 5.3 acre site in the Mullet Creek Park area of the Meadowvale Business Park to an international chemical company. The firm plans a construction start on a 45,000 square foot office building in the early part of 1978.

There will be a concerted marketing effort required over the next several years in Meadowvale North. We recognize the challenges in bringing into production the large acreage of industrial and commercial land north of Highway 401. We are prepared to meet them. If the number of new inquiries from potential users is an indication, we should have good success. The area will provide an opportunity for business and industry to locate in a planned business park. We will maintain the strict architectural and environmental controls that have proven so attractive to our clients who have already chosen to locate their facilities in Meadowvale.

Summary of Income Properties
as at October 31, 1977

METROPOLITAN TORONTO

Apartments

Rideau Towers I (50% share) 49 Thorncliffe Park Drive	Suites	400
Rideau Towers II (50% share) 53 Thorncliffe Park Drive		279
The Somerset 605 Finch Avenue West		243
Martinway Towers (70% share) 695 Martingrove Road		141
60 Callowhill Drive		141

Commercial/Industrial

Office Building 7 Overlea Boulevard	sq. ft.	150,000
Office Building 15 Overlea Boulevard		160,000
Office Building 240 Duncan Mill Road		170,000
Office Building 220 Duncan Mill Road		122,000
Hotel (16⅔% share) 33 Gerrard Street West	Rooms	995
Industrial Building 75 Horner Avenue	sq. ft.	90,000
Industrial Building 25-49 Coldwater Road		54,000
Industrial Building 310 Judson Street	sq. ft.	80,000
Industrial Building 110 Milner Avenue		30,000
Industrial Building 120 Milner Avenue		30,000
Industrial Building (50% share) 3610 Nashua Drive		56,000
Industrial Building 55 Milner Avenue		43,000
Industrial Building (50% share) 150 Telson Road		30,000
Industrial Building (50% share) 6860 Rexwood Road		70,000
Industrial Building 59 Milner Avenue		31,000
Industrial Building (50% share) 3510 Derry Road		3,000
Industrial Building (50% share) 3530 Nashua Drive		20,000
Industrial Building 126 Milner Avenue		20,000
Industrial Building (50% share) 6701 Rexwood Road		18,000
Industrial Building (50% share) 3710 Nashua Drive		62,000
Industrial Building (50% share) 3688 Nashua Drive		51,000
Industrial Building 124 Milner Avenue		63,000
Shopping Centre 6611 Falconer Drive		19,000
Shopping Centre 2846-2900 Ellesmere Road		87,000
Shopping Centre 1571 Sandhurst Circle		152,000
Convenience Centre 6690 Montevideo Road		5,000
Convenience Centre 7205 Copenhagen Road		5,000
Service Station Site 418 The Westway		

Under Construction

Shopping Centre 2900 Aquitaine Avenue		93,000
Convenience Centre 3080 Windwood Drive		8,000
Toronto College Park Phase 1, Apartment, Office and Shopping Complex (14.2% share)		

REGINA, SASKATCHEWAN

Regina Centre, Hotel and Shopping Complex (50% share) 1975 Broad Street	Rooms	240

PHOENIX, ARIZONA

Under Construction

Industrial Building First Street & Rockford Drive	sq. ft.	34,000
Industrial Building Priest Drive & Fairmount Drive		40,000

Consolidated Statement of Income and Expenses

For the years ended October 31	1977	1976
Revenue from land operations	$23,077,600	$40,933,000
Less cost	18,849,900	25,128,400
Profit from land operations	4,227,700	15,804,600
Revenue from income properties	10,676,700	8,720,000
Less:		
Operating expenses	3,153,600	2,465,600
Mortgage and other interest	3,956,700	2,808,900
Realty taxes	1,721,500	1,601,500
Depreciation	1,040,000	779,500
	9,871,800	7,655,500
Profit from income properties	804,900	1,064,500
Interest and other income	3,335,000	2,323,500
Gain on sale of income properties	1,249,800	1,017,000
Income before general and administrative expenses	9,617,400	20,209,600
General and administrative expenses:		
Executive and office salaries	1,257,200	925,800
Bank and debenture interest	364,000	261,400
Other	1,097,300	913,300
	2,718,500	2,100,500
Net income before income taxes	6,898,900	18,109,100
Provision for income taxes (Note 6)—		
Current	3,670,000	4,720,000
Deferred	(557,000)	3,900,000
	3,113,000	8,620,000
Net income for the year	$ 3,785,900	$ 9,489,100
Earnings per share (based on weighted average of shares outstanding during the year)—(Note 10(b))	$0.95	$2.37

Consolidated Statement of Retained Earnings

For the years ended October 31	1977	1976
Retained earnings at beginning of year	$26,075,800	$17,467,300
Net income for the year	3,785,900	9,489,100
	29,861,700	26,956,400
Dividends paid ($0.26 per share; 1976—$0.22)	1,040,700	880,600
Retained earnings at end of year	$28,821,000	$26,075,800

Consolidated Balance Sheet

Assets October 31	1977	1976
Accounts receivable	$ 3,387,100	$ 2,253,200
Mortgages and other secured receivables (Note 2)	26,667,300	33,560,900
Land (Note 3):		
For sale	14,077,300	8,204,100
For future development	94,900,300	83,719,100
	108,977,600	91,923,200
Prepaid expenses and other assets	1,563,700	1,581,100
Income properties (Note 3):		
Land	9,624,600	7,443,600
Buildings	54,993,800	50,681,400
Equipment	2,333,700	2,137,800
Construction in progress (Note 4)	2,844,600	1,925,100
	69,796,700	62,187,900
Less accumulated depreciation	5,253,300	5,125,600
	64,543,400	57,062,300
	$205,139,100	$186,380,700

Liabilities and Shareholders' Equity October 31	1977	1976
Bank indebtedness (Note 5)	$ 11,963,800	$ 9,972,200
Accounts payable and accrued liabilities:		
On construction and development in progress	4,245,800	4,002,300
Other, including accrued interest	5,653,800	4,357,300
Income taxes payable (Note 6)	1,327,700	2,408,200
Provision for development costs	16,383,800	12,466,500
Amounts payable under land purchase agreements (Note 7)	1,002,200	2,014,000
Sinking fund debentures (Note 8)	8,500,000	10,000,000
Mortgages payable (Note 9)	90,960,700	78,247,100
Deferred income taxes (Note 6)	15,324,000	15,881,000
	155,361,800	139,348,600
Shareholders' equity:		
Capital stock (Note 10)—		
Authorized—6,000,000 common shares, no par value		
Issued—4,002,499 shares	20,956,300	20,956,300
Retained earnings	28,821,000	26,075,800
	49,777,300	47,032,100
	$205,139,100	$186,380,700

Approved by the Board: B. R. B. Magee, Director D. F. Prowse, Director

Consolidated Statement of Source and Application of Cash

For the years ended October 31	1977	1976
Cash was provided from:		
Operations—		
Net income for the year	$ 3,785,900	$ 9,489,100
Add (deduct)—		
Depreciation	1,040,000	779,500
Income taxes, deferred	(557,000)	3,900,000
Gain on sale of income properties	(1,249,800)	(1,017,000)
	3,019,100	13,151,600
Mortgages on income properties and land	18,761,600	24,225,600
Land, development and related costs realized through sales	18,849,900	25,128,400
Increase in other liabilities	5,204,500	8,085,800
Proceeds of sales of income properties, net	2,336,400	2,132,600
Decrease in accounts, mortgages and other secured receivables	5,759,700	—
Total cash provided	53,931,200	72,724,000
Cash was applied to:		
Land—		
Acquisition	14,142,900	22,073,300
Development and related costs	15,298,000	17,049,500
Carrying charges	4,591,300	2,969,300
Increase in accounts, mortgages and other secured receivables	—	16,068,800
Income properties—		
Construction	8,872,500	3,291,300
Acquisition	—	4,946,900
Income taxes	4,867,100	2,765,100
Amounts payable under land purchase agreements	1,011,800	1,015,600
Principal payment, sinking fund debentures	1,500,000	—
Mortgage principal repayments—		
Income properties	567,700	538,900
Land	4,030,800	1,488,200
Dividends	1,040,700	880,600
Total cash applied	55,922,800	73,087,500
Net outgoing cash	$ 1,991,600	$ 363,500

Auditors' Report

To the Shareholders of Markborough Properties Limited:

We have examined the consolidated balance sheet of Markborough Properties Limited as at October 31, 1977 and the consolidated statements of income and expenses, retained earnings and source and application of cash for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at October 31, 1977 and the results of its operations and the source and application of its cash for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants

Toronto, December 2, 1977.

Notes to Consolidated Financial Statements October 31, 1977

1. Summary of accounting policies:
The accounting policies of the Company conform to generally accepted accounting principles and comply with guidelines published by the Ontario Securities Commission relating to the recognition of profits in real estate transactions. The Company is a member of the Canadian Institute of Public Real Estate Companies and its accounting policies and standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

(a) Principles of consolidation—
The consolidated financial statements include the accounts of the Company's subsidiaries, both of which are wholly-owned, and the Company's share of the assets, liabilities, revenues and expenses of both incorporated and unincorporated joint ventures in which it participates.

(b) Land and income properties—
Land and income properties, except for certain land acquired by amalgamation (see Note 3), are at cost which includes pre-development expenses and carrying charges (interest and real estate taxes).

The Company follows the practice, customary in the industry, of recording as land for sale, the estimated cost on a fully developed basis of those parcels of land on which the planning, engineering, servicing and governmental authorization procedures are completed to the point that the land can be regarded as available for sale. The amount recorded includes raw land costs and full provision for the estimated complete development costs. The liability for the unexpended portion of the estimated development costs is shown as provision for development costs and includes any costs still to be incurred on lots which have been sold.

(c) Depreciation policy—
The buildings included in income properties are being depreciated on a 3% 40-year sinking fund basis. Under this method depreciation is charged to income in an amount which increases annually, consisting of a fixed charge together with interest compounded at the rate of 3% per annum, so as to fully depreciate the buildings over a 40-year period. Equipment is being depreciated at 15% per annum on a straight-line basis.

(d) Income properties—
Revenue from income properties includes gross rental revenue from all the Company's properties except hotels and industrial buildings. Revenue from the Company's interest in hotels has been included after deducting operating expenses. Revenue from industrial buildings is on a net basis as operating expenses and realty taxes are paid for by the tenants. Revenue from income properties is recorded as income at the earlier of the date when 70% of the property is leased or when a period has elapsed subsequent to substantial completion deemed under the circumstances to be reasonable for leasing. Initial leasing costs of income properties are capitalized and amortized over the first term of the lease.

(e) Conversion of foreign currencies—
U.S. dollar assets and liabilities, including the accounts of the Company's subsidiary and joint ventures in the U.S., are converted at the rate of exchange prevailing at the balance sheet date. The net gain resulting from this method of conversion has been deferred and will be included in income when realized.

Revenues and expenses of the Company's subsidiary and joint ventures in the U.S. have also been converted at year-end rates. Exchange gains and losses resulting from this conversion, which are not material, are included in the consolidated statement of income and expenses.

2. Mortgages and other secured receivables:
Mortgages and other secured receivables, which arise from land transactions, bear interest at an average rate of 9.9% and mature as follows:

Fiscal year ending October 31,	1978	$10,776,100
	1979	3,184,300
Subsequent to October 31,	1979	12,706,900
		$26,667,300

Under certain conditions the amounts due may be paid prior to maturity.

3. Valuation of land and income properties:
On August 12, 1965 Markborough Limited and Highbury Properties Limited amalgamated under the Ontario Corporations Act to form Markborough Properties Limited. Land originally held by Markborough Limited was recorded at cost. Land and income properties held by Highbury Properties Limited were recorded at approximately $1,800,000 less than the valuation at the date of amalgamation and approximately $4,100,000 in excess of the values recognized for income tax purposes. Any potential tax liability created by this excess was taken into account in arriving at the values used.

Part of the property to which this excess applied has been sold and as a result the balance has been reduced to approximately $1,850,000 allocated as follows:

Land included in income properties	$ 350,000
Land for sale or future development	1,500,000
	$1,850,000

The increment shown above relating to income properties will result in additional taxes if the properties are sold.

The land for sale or future development subject to the increment is part of the Company's Meadowvale project. It is estimated that additional taxes of approximately $700,000 will be charged to income in future years as this land is sold.

Carrying charges accumulated to date on land for future development amount to $12,121,600 including $4,527,100 in the current year.

4. Construction in progress:
Estimated cost to complete construction of five projects in progress is approximately $7,350,000. Permanent financing has been arranged on two of these projects and will be arranged on the remaining projects in due course.

5. Bank indebtedness:
Bank indebtedness includes $2,262,000 secured by demand debentures creating a first floating charge on the assets of the Company and ranking ahead of the security for the sinking fund debentures (Note 8). The remaining indebtedness, $9,701,800, relates to the Company's share of bank advances to a subsidiary and joint ventures.

6. Income taxes:
The Company's provision for income taxes has been calculated in accordance with generally accepted principles, by applying the income tax rate applicable to its 1977 fiscal year to net income earned during the year.

The amount of the 1977 provision that is currently payable, $3,670,000, is calculated by applying the same tax rate to the Company's taxable income which, because of certain sections in the Income Tax Act, is more than the net income shown in the Company's accounts. The section in the Income Tax Act which gives rise to the major difference between the

Company's taxable and net income in 1977 allowed a deferment of tax on profits from land sales made in prior years until the proceeds were received in cash. The additional tax which arises from the receipt of these sales proceeds has been charged against the deferred income tax provisions made in prior years and included on the balance sheet as deferred income taxes.

7. Amounts payable under land purchase agreements:
Under terms of various land purchase agreements the Company has incurred obligations related to land for future development at an average interest rate of 4.6% which are repayable in 1978.

8. Sinking fund debentures:
The sinking fund debentures, secured by a floating charge on the assets of the Company (subject to the security referred to in Note 5), bear interest at 8.5% and are repayable as follows:

Fiscal year	
ending October 31, 1978	$1,500,000
1979	1,500,000
1980	1,500,000
1981	2,000,000
1982	2,000,000
	$8,500,000

In addition, under certain circumstances the principal outstanding at any time may be reduced by the exercise of the share warrants issued in connection with these debentures (See Note 10(a)).

9. Mortgages payable:
Mortgages payable comprise the following:

On land for future development, at an average interest rate of 8.9% with varying repayment terms and maturing by 1990	$48,778,200
On income properties, at an average interest rate of 9.2% payable in equal instalments of principal and interest and maturing by 2004	42,182,500
	$90,960,700

Principal repayments are due approximately as follows:

Fiscal year	
ending October 31, 1978	$ 3,373,800
1979	4,836,200
1980	4,383,700
1981	21,448,500
1982	1,732,800
Subsequent to October 31, 1982	55,185,700
	$90,960,700

10. Capital stock:
(a) In connection with the issue of sinking fund debentures in 1971 and 1972, warrants are outstanding entitling the holders thereof to purchase common shares as follows:

400,000 common shares at a price of $9.50 if exercised on or before January 30,1982 and

156,429 common shares at a price of $8 if exercised on or before January 30, 1978 and thereafter at a price of $9.50 if exercised on or before January 30,1983.

During the currrent year no warrants were exercised. For the purpose of the warrants still outstanding, 556,429 common shares have been reserved. Under certain circumstances the above warrants may be exercised by an equivalent reduction in outstanding sinking fund debentures.

(b) If the 556,429 outstanding warrants were exercised and the funds derived invested at 8½% the Company's fully diluted earnings per share would be $0.88 (1976—$2.13).

11. Anti-inflation guidelines:
The Company is subject to, and believes it has complied with, controls on prices, profits, compensation and dividends under the Federal Government's anti-inflation program and controls on residential rents instituted by the Province of Ontario.

12. Remuneration to directors and senior officers:
The aggregate direct remuneration paid or payable to the directors and nine senior officers of the Company as defined in the Ontario Business Corporations Act (nine in 1976) in respect of the year ended October 31, 1977 was $543,000 (1976—$477,000).

13. Joint venture operations:
The Company accounts for its share of the assets, liabilities, revenues and expenses of the joint ventures in which it participates by the proportionate consolidation method. The Company's share of its joint venture operations is summarized as follows:

Assets	1977	1976
Land for sale	$ 2,546,500	$ 1,204,700
Land for future development	21,372,800	20,213,100
Income properties	19,385,100	16,188,300
Prepaid expenses and other assets	1,429,900	1,076,200
	$44,734,300	$38,682,300
Liabilities and Equity		
Bank indebtedness	$ 7,224,100	$ 2,418,300
Accounts payable and accrued liabilities	3,564,700	837,500
Amounts payable under land purchase agreements	1,002,200	2,014,000
Mortgages payable	18,687,800	18,239,500
	30,478,800	23,509,300
Investment in joint ventures	14,255,500	15,173,000
	$44,734,300	$38,682,300

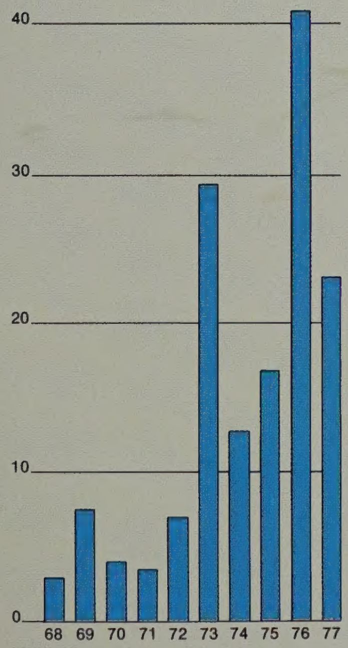
Income and Expenses	1977	1976
Revenue from land operations	$ 2,915,800	$ 799,800
Less cost (including in 1977 a reduction of $2,100,000 in value of Florida land)	4,440,900	513,000
Profit (loss) from land operations	(1,525,100)	286,800
Revenue from income properties	3,555,500	3,069,300
Less expenses	3,167,700	2,482,500
Profit from income properties	387,800	586,800
Net income (loss) before income taxes	$ (1,137,300)	$ 873,600

The Company is contingently liable at October 31, 1977 for $11,741,000 representing the liabilities of its co-owners in unincorporated joint ventures but against such contingent liability the Company would have a claim upon the joint venture assets of its co-owners. The value of these joint venture assets exceeds the contingent liability.

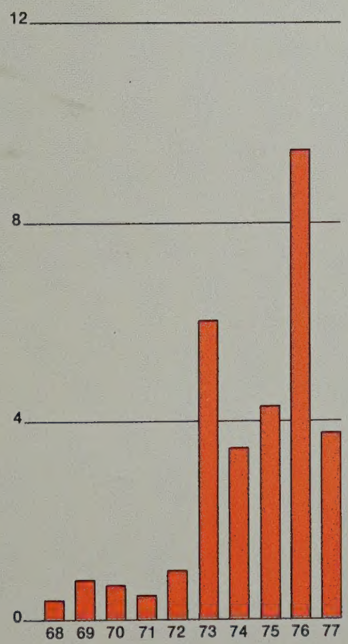
Ten Year Comparison (thousands of dollars except where noted)

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Operating results for the year										
Revenue from land operations	$23,078	$40,933	$16,925	$12,915	$29,449	$ 7,047	$ 3,466	$ 4,002	$ 7,410	$ 2,856
Revenue from income properties	10,677	8,720	7,741	7,037	6,132	5,234	4,954	4,754	3,771	3,014
Net income before taxes	6,899	18,109	8,906	7,425	12,376	2,041	1,057	1,427	2,615	871
Net income after taxes	3,786	9,489	4,283	3,529	6,065	985	540	695	810	427
Dollars per share (weighted average):										
Net income after taxes	0.95	2.37	1.07	0.88	1.53	0.26	0.15	0.19	0.22	0.12
Cash flow from operations	1.07	3.54	1.70	0.98	3.15	0.70	0.44	0.54	0.85	0.35
Financial position at the year end										
Undeveloped land	$94,900	$83,719	$63,215	$60,458	$34,736	$27,778	$27,985	$25,592	$22,054	$16,787
Income properties	64,543	57,062	51,292	46,155	40,199	38,096	35,772	31,373	30,095	27,880
Total assets	205,139	186,381	142,105	133,876	110,977	80,837	75,565	59,764	58,864	50,789
Bank debt	11,964	9,972	9,609	3,980	—	920	1,435	1,335	3,938	6,325
Long term debt	100,463	90,261	70,808	70,664	56,542	44,352	40,908	32,655	29,946	22,431
Share capital	20,956	20,956	20,956	20,956	20,695	20,615	18,591	18,591	18,591	18,568
Retained earnings	28,821	26,076	17,467	13,185	9,656	3,591	2,606	2,066	1,371	561
Statistical at the year end										
Common shares outstanding	4,003	4,003	4,003	4,003	3,959	3,944	3,652	3,652	3,652	3,649
Ratio of income properties to land for development	.7 to 1	.7 to 1	.8 to 1	.8 to 1	1.2 to 1	1.4 to 1	1.3 to 1	1.2 to 1	1.4 to 1	1.7 to 1
Ratio of debt to equity	2.3 to 1	2.1 to 1	2.1 to 1	2.2 to 1	1.9 to 1	1.9 to 1	2.0 to 1	1.6 to 1	1.7 to 1	1.5 to 1

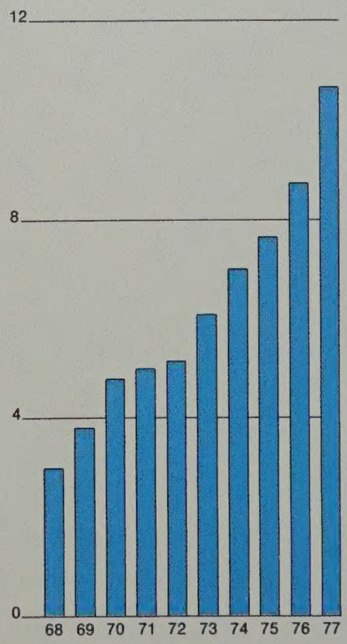
Revenue from land operations
(millions $)



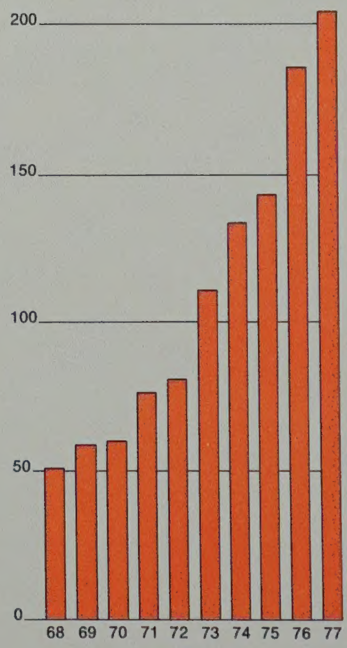
Net income after taxes
(millions $)



Revenue from income properties
(millions $)



Total assets
(millions $)



(L to R)
D. F. Prowse, Executive Vice-President
H. P. Langer, Executive Vice-President
B. R. B. Magee, President and Chairman of the Board

Directors

D. S. Anderson
Chairman
Canada Realties Limited
Toronto

T. Cedraschi
President
CN Investment Division
Canadian National Railways
Montreal

A. R. Grant
President
George Wimpey Canada Limited
Toronto

G. C. Gray
President
A. E. LePage Limited
Toronto

The Right Honourable Viscount Hardinge
Director
Greenshields Incorporated
Montreal

Captain J. Jeffery
Chairman of the Board
London Life Insurance Company
London

H. P. Langer
Executive Vice-President
Markborough Properties Limited
Toronto

A. J. MacIntosh
Partner
Blake, Cassels & Graydon
Toronto

B. R. B. Magee
Chairman of the Board and President
Markborough Properties Limited
Toronto

P. M. McEntyre
President
Commercial Trust Company Limited
Montreal

D. S. McGiverin
President and Chief Executive Officer
Hudson's Bay Company
Toronto

J. G. W. McIntyre
Vice-President, Retail Development
Hudson's Bay Company
Toronto

D. W. Pretty
President
North American Life Assurance Company
Toronto

D. F. Prowse
Executive Vice-President
Markborough Properties Limited
Toronto

P. W. Wood
Executive Vice-President
Hudson's Bay Company
Toronto

Officers

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Donald S. McGiverin, B.Comm., M.B.A.
Deputy Chairman of the Board

H. Peter Langer, F.R.I., S.I.R.
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Vice-President and Treasurer

James C. Shapland, B.A., LL.B.
Vice-President and Secretary

Reinier P. Grevers
Assistant Treasurer

Reginald W. Munro
Assistant Secretary

Corporate Data

Legal Counsel
Blake, Cassels & Graydon, Toronto

Auditors
Price Waterhouse & Co., Toronto

Transfer Agent and Registrar
Canada Permanent Trust Company
Toronto, Montreal, Halifax, Winnipeg, Calgary and Vancouver

Securities Listed
Montreal Stock Exchange
Toronto Stock Exchange


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